



County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA
Chief Executive Officer

May 21, 2009

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", written over a horizontal line.

SACRAMENTO UPDATE

This memorandum contains summaries of the first meeting of the Budget Conference Committee and the Legislative Analyst's (LAO) Office overview of the 2009-10 Revision. It also includes Federal notification that the State will receive the Federal Medical Assistance Percentage (FMAP) funding increase, pursuit of a County position on two bills, the first of which relates to the process for annexation of unincorporated fringe or unincorporated island communities and the second addresses the confidentiality of home addresses of public officials maintained by the Department of Motor Vehicles, and the status of County-advocacy legislation.

Budget Conference Committee

On May 21, 2009, the Budget Conference Committee began its deliberations. The Senate conferees are Denise Ducheny, Mark Leno, Alan Lowenthal, Bob Dutton, and Mimi Walters. The Assembly conferees are Noreen Evans, Kevin De Leon, Robert Blumenfield, Roger Niello, and Jim Nielsen. The committee heard an overview of the May Revision provided by the LAO, Department of Finance (DOF), the Treasurer, and the Controller.

At today's hearing, the DOF representative indicated that the Department would not pursue \$5.5 billion in borrowing through the issuance of Revenue Anticipation Warrants (RAWs) and would instead pursue additional expenditure reductions. According to DOF, it is evaluating the possibility of reductions in programs that are not

"To Enrich Lives Through Effective And Caring Service"

**Please Conserve Paper – This Document and Copies are Two-Sided
Intra-County Correspondence Sent Electronically Only**

federally-mandated, including elimination of the Healthy Families Program, CalWORKs, and the Mental Health Managed Care Program. DOF is also looking to reduce additional expenditures in higher education by \$600 million, the courts by 10 percent, Child Welfare Services by \$120 million, and corrections by \$750 million. The Committee requested that DOF present its revised May Revision on Tuesday, May 26, 2009 instead of Thursday, May 28, 2009. The Department indicated that it would comply.

The committee is scheduled to continue holding hearings through May 28, 2009, at which time public testimony will be heard. At the request of the County Welfare Directors Association, Trish Ploehn, the Director of the Department of Children and Family Services is scheduled to testify before the committee on May 27, 2009 on the impact of the Administration's proposed 10 percent reduction to Child Welfare Services.

The committee is expected to begin taking formal action on the budget by June 1, 2009. The hearing schedule is attached.

Legislative Analyst's Office Releases Overview of the 2009-10 Revision

The Legislative Analyst's Office concurs with the Governor's \$21.3 billion estimate of the budget problem. With the defeat of Proposition 1C (lottery securitization) and Propositions 1D and 1E (redirection of childhood development and mental health funding, respectively), the State's deficit grew by almost \$6 billion to its current level. The LAO notes that its estimates of revenues and expenditures differ somewhat from the Administration's, and therefore, the shortfall could be understated by another \$3 billion.

Even if the Governor's proposals were adopted by the Legislature, the structural deficit for FY 2010-11 would be \$15 billion with higher operating shortfalls over the following three years.

The LAO is particularly critical of the Administration's proposal to issue \$5.5 billion in RAWs and its reliance on one-time solutions of approximately \$12 billion including the RAWs. In the LAO's view, RAWs should be used for temporary cash flow problems and not as a solution to an annual budget problem since they would simply defer part of the State's budget shortfall for one year. DOF indicated during testimony before the Budget Conference Committee that it was abandoning its RAWs proposal, and would pursue additional reductions instead. The LAO also indicates that the short-term solutions, which account for more than one-half of the Governor's proposals, would not extend beyond the current year and only make it more difficult to cope with future structural deficits.

As an alternative, the LAO recommends that the Legislature use other forms of borrowing such as suspension of Proposition 42, the Transportation Congestion Improvement Act of 2002, other expenditure reductions, and/or revenue increases.

The LAO also is critical of the Governor's proposal to borrow \$2 billion from local governments. It suggests that the Legislature should recognize that cities, counties, and special districts are already under fiscal stress, and that this proposed borrowing will only make their problems worse. Instead, the LAO suggests that instead of borrowing 8 percent from each local agency as proposed by the Governor, the State could borrow a larger percentage from agencies that have a greater capacity to reduce programs or replace property taxes with fees or other revenues. Specifically, the LAO recommends borrowing up to \$500 million from waste and water enterprise special districts.

As part of its overview, the LAO provides an extensive list of potential program reductions, fee increases, employee compensation proposals, and changes to various tax expenditure programs.

The LAO's overview of the May Revision is available at:
http://www.lao.ca.gov/2009/bud/may_revise/may_revision_052109.pdf

Federal Medical Assistance Percentage (FMAP)

On May 11, 2009, we advised your Board that the State received a notice from the Federal Centers for Medicare and Medicaid Services (CMS) indicating that the State was potentially out-of-compliance with the American Recovery and Reinvestment Act (ARRA). This placed the State at risk of losing approximately \$10 billion in increased FMAP funding. CMS indicated that the State's FY 2009-10 budget action to reduce its participation in In-Home Supportive Service provider wages and benefits effective July 1, 2009 violated ARRA provisions, which prohibit a state from receiving the FMAP increase if the State requires counties to pay a higher percentage share of Medicaid than required on September 30, 2008. The State appealed the CMS opinion.

On May 20, 2009, CMS notified the State that based on CMS' current understanding of California State law and the State's Medicaid plan, the State is not in violation of the ARRA and that California is eligible to the FMAP increase. This decision will provide the County with additional Medicaid revenue, which would reduce net County costs by an estimated \$475.6 million in additional funding for the County during the period from October 1, 2008 to December 31, 2010.

Pursuit of County Position on Legislation

AB 853 (Arambula), as amended on May 18, 2009, would eliminate local control over the annexation process for unincorporated fringe communities or unincorporated island communities by requiring a board of supervisors to petition the Local Agency Formation Commission (LAFCO) to approve the annexation of an unincorporated fringe community or an unincorporated island community to a city, LAFCO would have to approve the annexation, if all of the following apply:

- Twenty-five percent of the registered voters or land owners in the unincorporated island or fringe community petition the Board of Supervisors to initiate an annexation;
- The territory proposed to be annexed constitutes an unincorporated island or unincorporated fringe community that lacks wastewater, drinking water services, storm drainage, paved streets, sidewalks or streetlights, or there exists a serious infrastructure-related health hazard; and
- The territory meets the definition of a disadvantaged community.

The bill defines unincorporated fringe community as any inhabited, unincorporated territory that is within a city's sphere of influence. An island community is any inhabited unincorporated territory that is surrounded or substantially surrounded by one or more cities or by one or more cities and a county boundary or the Pacific Ocean. A disadvantaged community has an annual median household income that is less than 80 percent of the Statewide annual median household income. It is unclear which agency, county or LAFCO would determine whether or not an unincorporated area lacks wastewater, drinking water services, storm drainage, paved streets, sidewalks or streetlights, or has an infrastructure-related health hazard.

AB 853 also would make other changes to the annexation process for the unincorporated island communities or unincorporated fringe communities, including: 1) allowing LAFCO to determine the transfer of property taxes if the city and county do not enter into a property tax transfer agreement; 2) requiring a revenue neutrality agreement; and 3) requiring a city to amend its general plan to ensure that the annexation conforms with the city's general plan after LAFCO's approval, instead of the current requirement of pre-zoning prior to LAFCO's consideration of an application. The annexation must be approved unless the preponderance of evidence demonstrates that it will not result in a net benefit to the public health of the affected community.

The financial impact of the annexation, on either the city or any special district, is not to be considered in the determination of net benefit. Thus, there is no assessment of how the annexation will affect the service capacity of the city or any special district, which also may either have the territory annexed or detached depending on the services provided by the affected city. In addition, there is no evaluation of an affected special district's ability to provide services to other territory within its service boundaries. Even if such an evaluation were negative, an affected special district will not have the authority to terminate the annexation. According to County Counsel, under current law, a special district has 60 days from the beginning of annexation proceedings that are not initiated by the district to request termination based on written findings and substantial evidence.

The legislation is silent about affected special districts and it is unclear what happens to districts that may be currently providing services that would continue in the future by the city. The bill also takes away LAFCO's discretion to deny an application if the city does not have the capacity to provide water, sewer, or other municipal services or to address the remaining special district's ability to provide services to the area that was not annexed. In addition, there is no protest process to allow community members who may oppose the annexation to have their opinions heard. This is especially relevant since a minority of the property owners or registered voters can initiate the annexation proceedings.

County Counsel, the Departments of Regional Planning, Public Works, and this office's Unincorporated Area Services are concerned that AB 853 treats annexations as though they are incorporations. For example, the bill requires a revenue neutrality agreement for annexations, which under current law, only applies to incorporations, but it does not address what the revenue neutrality agreement is to include. In addition, the bill requires a county and a city to enter into a property tax transfer agreement and dictates that LAFCO use the formula for determining property tax transfers for proposed incorporations if the city and county do not come to an agreement, which they are not required to do under existing law. Furthermore, AB 853 allows for a city in the annexation process to receive payments for the cost of connecting residents to wastewater or drinking water services, which could result in a greater financial loss to a county.

The California Association of Local Agency Formation Commissions (CALAFCO) has expressed many of the same concerns that County departments have identified, including the elimination of local discretion and the affect on special districts. In addition, CALAFCO is concerned about the lack of a protest process, the requirement for a city to amend its general plan after approval instead of pre-zoning, and the overall

lack of consistency with the existing Cortese-Knox-Hertzberg Local Government Reorganization Act which governs the annexation process.

The Department of Regional Planning (DRP) and this office oppose AB 853. Opposition to the bill is consistent with existing policy to oppose legislation that infringes upon County Board of Supervisors' local land use decision-making authority and to oppose legislation that increases the fiscal liability of the County in annexations and incorporations. **Therefore, the Sacramento advocates will oppose AB 853.**

AB 853 is jointly sponsored by the California Rural Legal Assistance Foundation and PolicyLink, and opposed by the California Special District Association and the League of California Cities. The California Association of Local Agency Formation Commissions has expressed concerns about the bill but has not taken a formal position. The bill passed the Assembly Local Government Committee on May 13, 2009, as amended, by a vote of 5 to 2, and is currently pending a vote on the Assembly Floor.

AB 923 (Swanson), as amended on April 13, 2009, would add Board of Equalization members, zoo veterinarians, employees of certain animal control shelters, and local government code enforcement officers to the list of peace officers and other public officials who may request the Department of Motor Vehicles to provide enhanced confidentiality to their home addresses. The bill defines a code enforcement officer as a local official responsible for enforcing housing codes and maintaining public safety in buildings, and a public health officer as one with the authority to arrest persons for violation of a statute or ordinance.

The Department of Regional Planning indicates that breeches of personal information could lead to harm to any of the 40 DRP zoning code enforcement officers and managers serving the unincorporated areas of the County. DRP reports that some code enforcement officers have been assaulted and others have had personal property damaged while on duty when facing disgruntled code enforcement violators. DRP indicates that the safety of code enforcement staff is a top priority for the Department.

The Department of Regional Planning and this office support AB 923. Support for the bill is consistent with existing Board policy to support legislation that would add code enforcement officials to the list of specified public employees and their families whose personal information should be kept confidential from public inspection or inquiry. **Therefore, the Sacramento advocates will support AB 923.**

AB 923 is sponsored by the American Federation of State, County, and Municipal Employees; and supported by the California Association of Code Enforcement Officers; California Narcotics Officers Association; California Police Chiefs Association; and

San Diego Municipal Employees Association. It is opposed by the Orange County Register. This measure was placed on the Assembly Appropriations suspense file on April 29, 2009, because of potential State costs.

County-supported SB 93 (Kehoe), as amended on May 18, 2009, which would remove the provisions in the legislation as amended on March 10, 2009, which would have required a Community Redevelopment Agency (CRA) to make new findings of blight in a project area in order to spend money on a public facility or for the acquisition of land inside or outside a project area, and certify that these actions would remove blight.

Instead, SB 93 requires that a CRA determine that for proposed activity within a project area, the public facility or land acquisition is of benefit to the project area and that it will help to eliminate blight. For projects outside a project area, the CRA must find the land or public facilities are of primary benefit to the project area, help to eliminate blight, or directly assist in the provision of housing for low or moderate-income housing. In addition, the CRA must determine that no other reasonable means of financing is available. In making this finding, the CRA may take into account legal factors, such as the eligibility for funding under existing statutes; economic factors, such as prevailing interest rates and market conditions; and political factors, such as the ability or willingness of property owners or taxpayers to bear the cost of any special assessments, and the likelihood of voter approval, if required. Because SB 93 would no longer strengthen the blight findings requirement to prevent development abuse, **the Sacramento advocates will remove their support and take no position on the Legislation.**

Status of County-Advocacy Legislation

County-supported AB 215 (Feuer), as amended on April, 13, 2009, which would require a long-term health care facility to post the overall facility rating information determined by CMS, including the number of stars assigned to a facility, passed the Assembly on May 18, 2009, by a vote of 65 to 11, and now proceeds to the Senate.

County-supported AB 421 (Beall), as amended on May 4, 2009, which would make California law consistent with Federal law to allow counties to place children served by the AB 3632 Program in out-of-state group homes that are operated as for-profit entities and receive payment for these services, was placed on the Assembly Appropriations Committee's suspense file on May 20, 2009, because of potential increased costs to the State General Fund.

Each Supervisor
May 21 2009
Page 8

County-supported AB 613 (Beall), as amended on May 5, 2009, which would improve and streamline the Medi-Cal Treatment Authorization Request process, was placed on the Assembly Appropriations Committee's suspense file on May 20, 2009, because of potential increased costs to the State General Fund.

County-supported SB 815 (Cogdill), as amended on May 6, 2009, which provides for additional student financial aid for members of the California National Guard, was heard in the Senate Appropriations Committee on May 18, 2009, and placed on the Committee's suspense file.

We will continue to keep you advised.

WTF:GK
MAL:MR:IGEA:sb

Attachment

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants

CONFERENCE COMMITTEE ON THE BUDGET
SB 61 Committee on Budget - 2009-10 State Budget

Tentative Schedule

Thursday, May 21

1:30 p.m. – Room 4203

Topic: OVERVIEW

Friday, May 22

9:00 A.M. – Room 4203

Topic: CASH MANAGEMENT

Tuesday, May 26

1:30 p.m. – Room 4203

Topic: Education/Higher Education/Child Care and Development
Public Comment

Wednesday, May 27

9:00 A.M. – Room 4203

Topic: Health and Human Services
Public Comment

9:00 – 10:30	Medi-Cal and Healthy Families Program Issues
10:30 – 11:30	Public Health, Drug Medi-Cal, Proposition 36, and Emergency Medical Services Authority
Noon – 1:30	Developmental Services
1:30 – 3:00	In-Home Supportive Services
3:00 – 4:00	CalWORKs, SSI/SSP, CFAP/CAPI
4:00 – 5:00	Child Welfare Services, Foster Care

Thursday, May 28

9:30 a.m. – Room 4203

Public Safety/Local Government and Other
Public Comment

Friday, May 29

No Conference Committee scheduled for today